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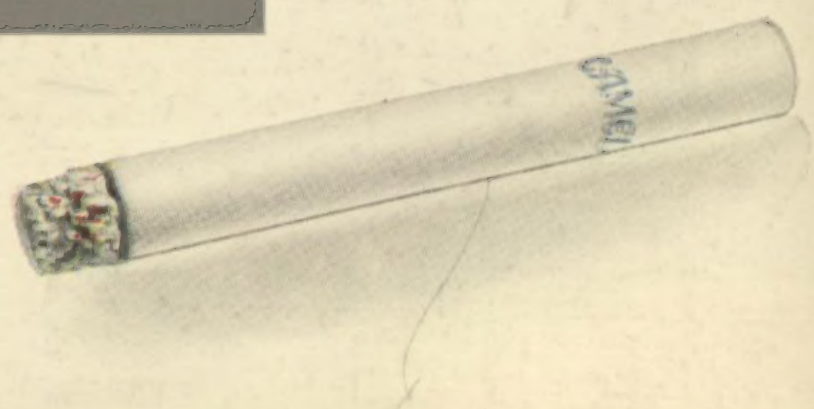
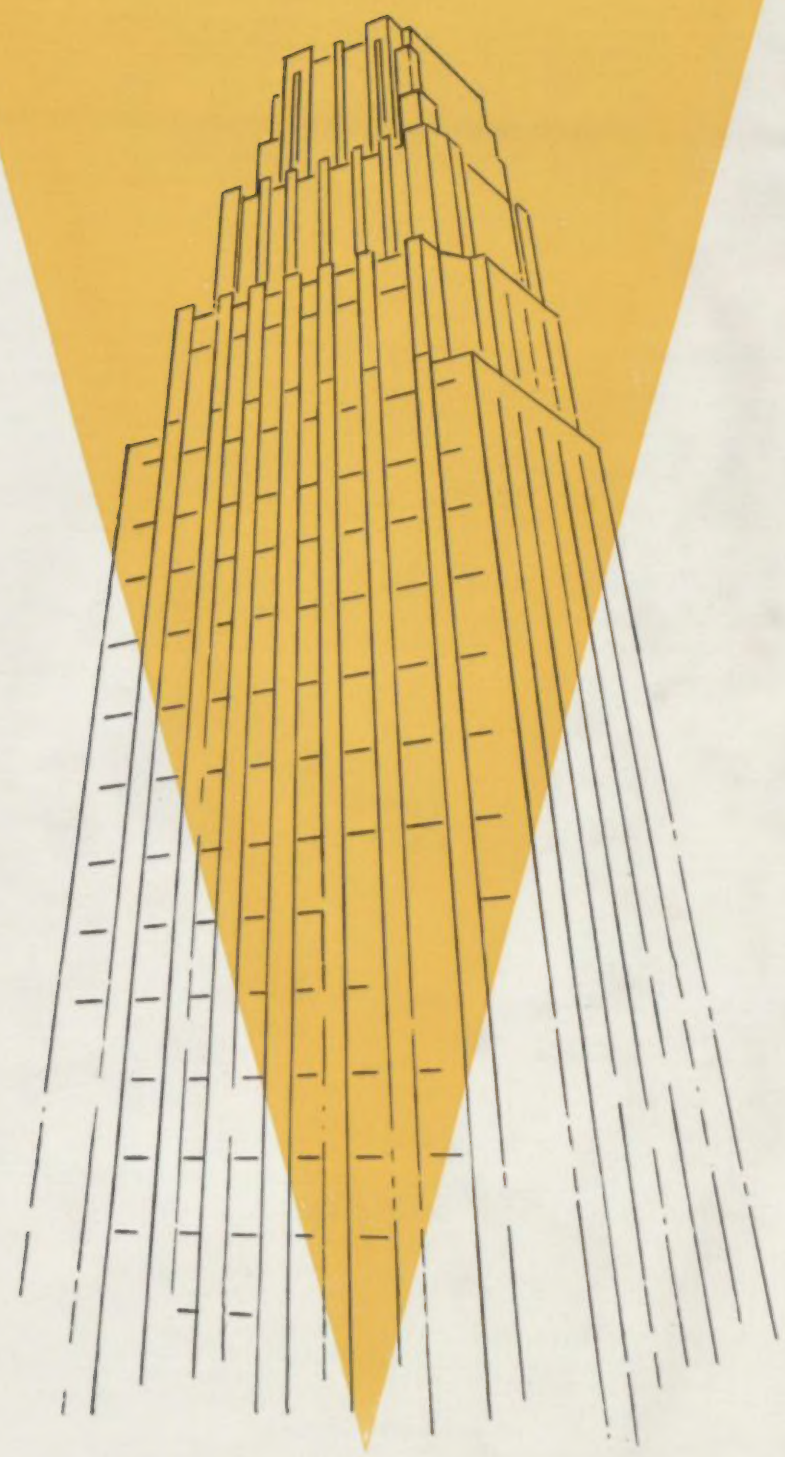
Annual Report 1953

R. J. Reynolds Tobacco Company

WINSTON-SALEM, N. C.





R. J. REYNOLDS TOBACCO COMPANY

Annual Report to the Stockholders 1953

CONTENTS

FINANCIAL HIGHLIGHTS	2
LETTER TO STOCKHOLDERS	3
PRODUCTION	9
PRODUCTS	12
SELLING	14
RESEARCH	16
PEOPLE	18
5-YEAR RECORD	19
FINANCIAL STATEMENTS	20
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS	24
BOARD OF DIRECTORS	25

FINANCIAL HIGHLIGHTS

	1953	1952
SALES, EARNINGS AND DIVIDENDS		
Net Sales	$876,189,581	$881,424,299
Net Earnings	34,172,044	31,949,392
Net Earnings as a percentage of Net Sales	3.90%	3.62%
Earnings per share on common stocks *before* taxes on income*	$ 9.99	$ 9.25
Taxes on income per share of common stocks*	6.87	6.35
Net Earnings per share on common stocks*	3.12	2.90
Dividends per share on common stocks	2.00	2.00
Dividends on Preferred Stock	2,934,000	2,934,000
Dividends on common stocks	19,756,235	19,723,308
FINANCIAL POSITION AT YEAR END		
Total Assets	$598,609,439	$591,641,407
Current Assets	558,393,962	553,199,804
Current Liabilities	137,701,957	137,215,734
Net Current Assets—Working Capital	420,692,005	415,984,070
Real Estate, Machinery and Equipment—net	36,394,804	34,550,983
Funded Debt	125,000,000	130,000,000
Preferred Stock	75,000,000	75,000,000
Common stocks and Earnings Retained	260,907,482	249,425,673

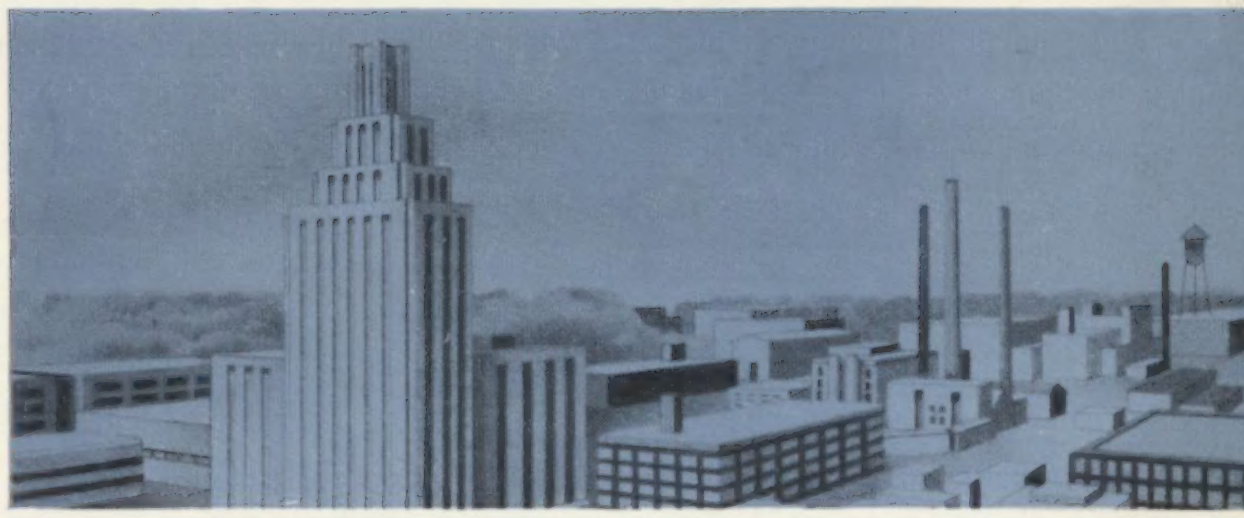
*Based on 10,000,000 shares.

R. J. REYNOLDS

TOBACCO COMPANY

WINSTON-SALEM,

NORTH CAROLINA



TO THE STOCKHOLDERS:

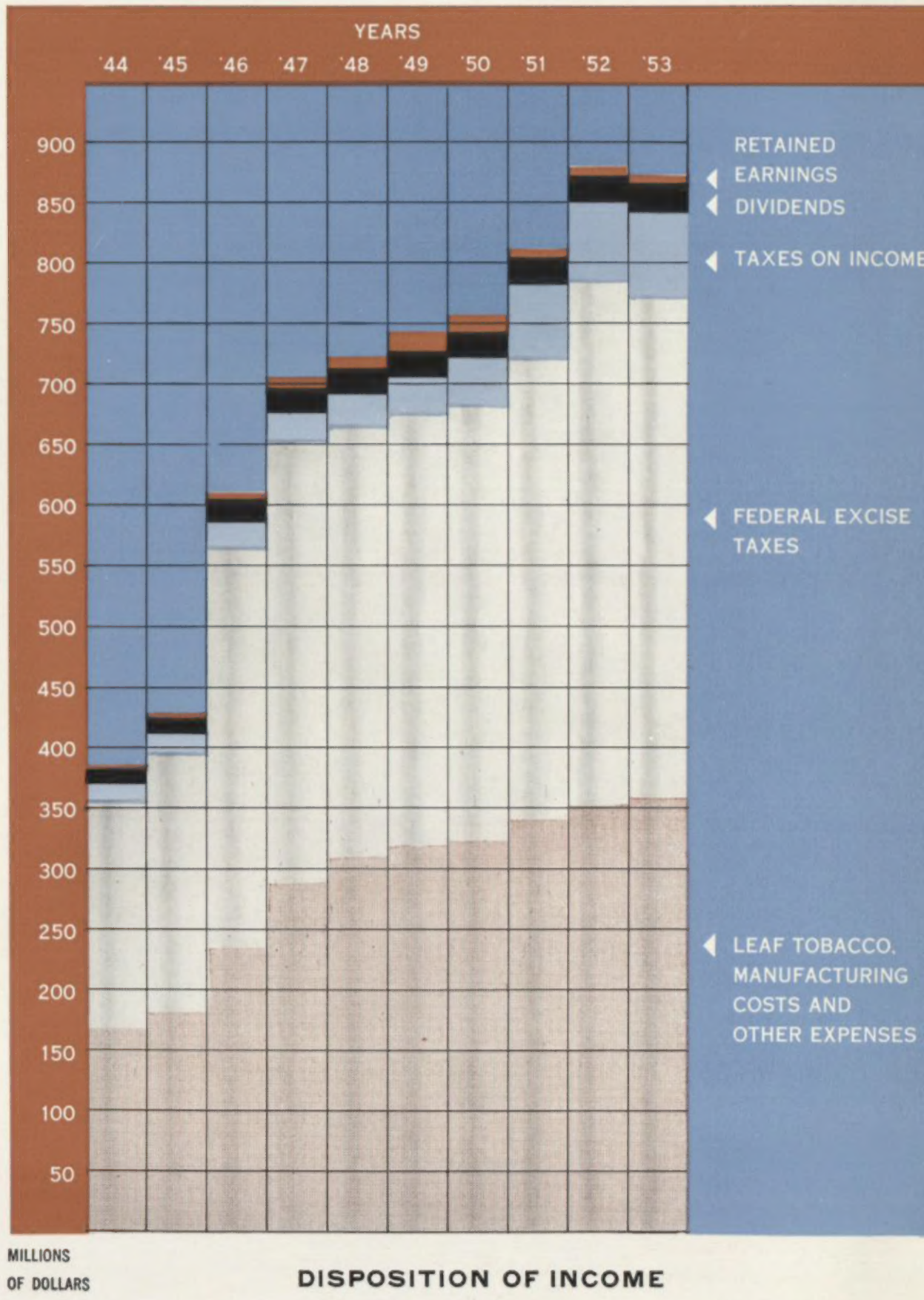
Net earnings in 1953 were $34,172,044, or $2,222,652 greater than in the preceding year. Based on the 10,000,000 shares of common stocks, earnings last year were $3.12 a share as against $2.90 in 1952.

Again earnings were subjected to exceedingly high tax rates. Earnings before provision for Federal and state taxes on income were $102,873,336 compared with $95,514,378 in 1952. The provision for the excess profits tax was $12,021,220, or $1.20 for each share of the common stocks. This exceedingly unfair and burdensome tax expired at the end of 1953.

Dividends

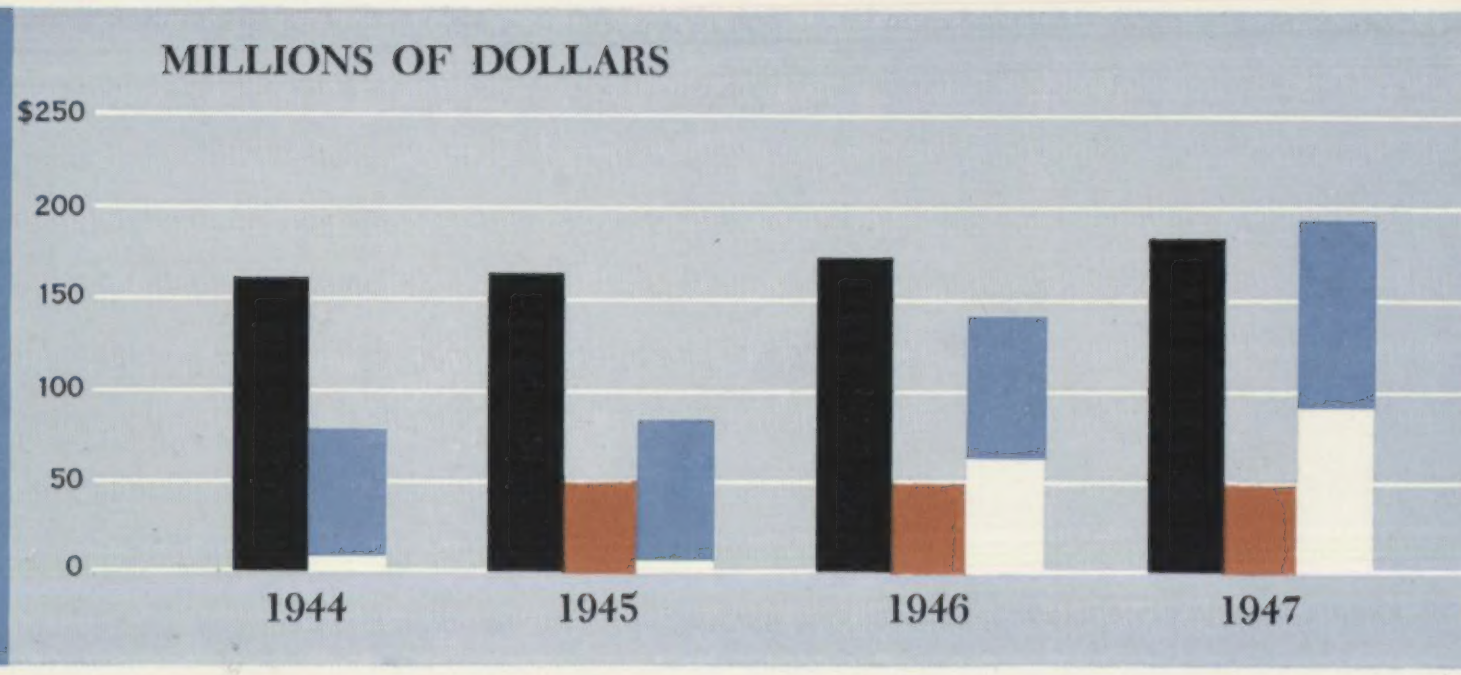
Dividends paid in 1953 on the common stocks amounted to $2.00 a share, comprising four quarterly dividends of 50 cents each. Total dividends paid during the year on the common stocks and the Preferred Stock were $22,690,235, or 66.4% of net earnings.

The first quarterly dividend on the common stocks for 1954, in the amount of 60 cents a share, was declared on Janu-



DISPOSITION OF INCOME

EQUITY AND BORROWED FUNDS —YEAR END



	1944	1945	1946	1947
COMMON STOCKHOLDERS EQUITY	$ 161.7	$ 163.4	$ 172.1	$ 182.5
PREFERRED STOCK		49.0	49.0	49.0
FUNDED DEBT	8.0	6.0	64.0	92.0
SHORT TERM DEBT	69.5	76.5	77.0	102.0
TOTAL	$ 239.2	$ 294.9	$ 362.1	$ 425.5

ary 14, 1954, payable on March 5, 1954 to holders of record on February 15, 1954.

Sales

Sales last year were $876,189,581, as against $881,424,299 in 1952. CAMEL Cigarettes continued their leadership in the market, although there was some decline in volume from 1952. CAVALIER Cigarettes, our king-size brand introduced in 1949, more than doubled in volume over the previous year. According to the latest Government figures available at the time of this writing, covering the first eleven months of 1953, the number of cigarettes removed from all factories in the United States declined 2.7% from the same period in 1952.

Cigarette Price Increase

On the expiration of price control last February, the price of CAMEL Cigarettes and CAVALIER Cigarettes was increased by the net amount of 38.3 cents per thousand, or about ¾ of a cent for a package of twenty cigarettes. During the period of price control, the Company was not permitted to advance the price of its cigarettes except to offset an increase in the Federal excise tax, notwithstanding higher leaf tobacco and other costs. The added price compensated for these increased costs and made possible an improvement in profit margin.

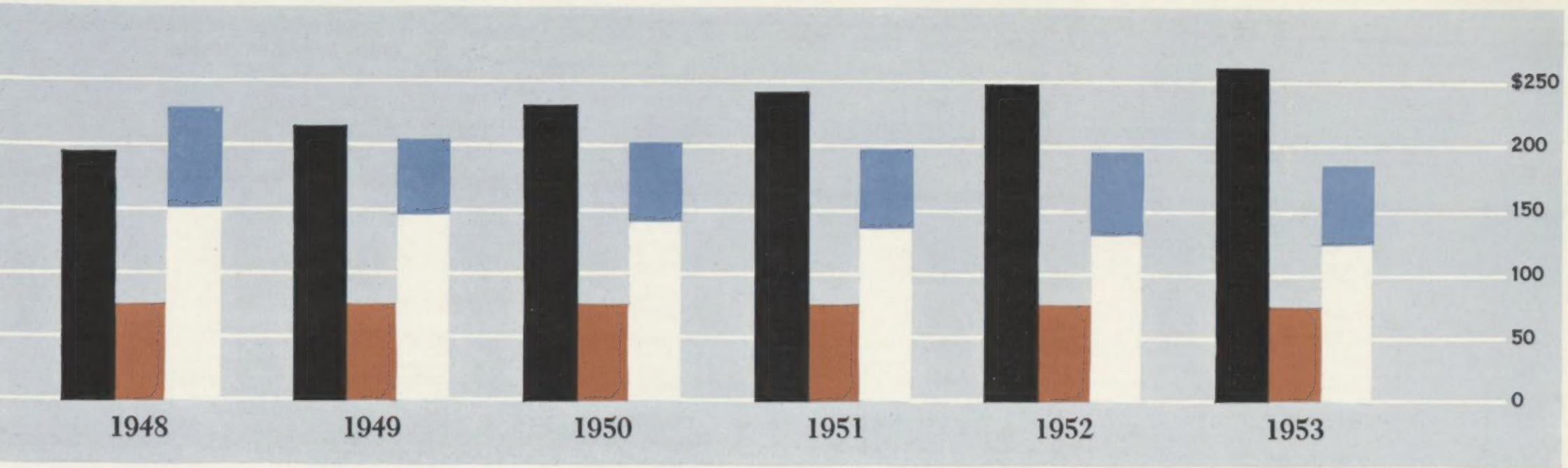
Leaf Tobacco and Inventories

Our purchases from the 1953 flue-cured tobacco crop were made at an average price per pound slightly less than such price for our acquisitions from the 1952 crop. This was possible, although the 1953 crop as a whole sold at an average price higher than the 1952 crop, due to a decrease in the price of the better grades of cigarette tobaccos presumably because of the greater quantity of such tobaccos in the 1953 crop. With respect to Burley tobacco, with over one-half of the 1953 crop sold at the year end, our acquisitions then had been made at an average price about in line with our purchases out of the 1952 crop.

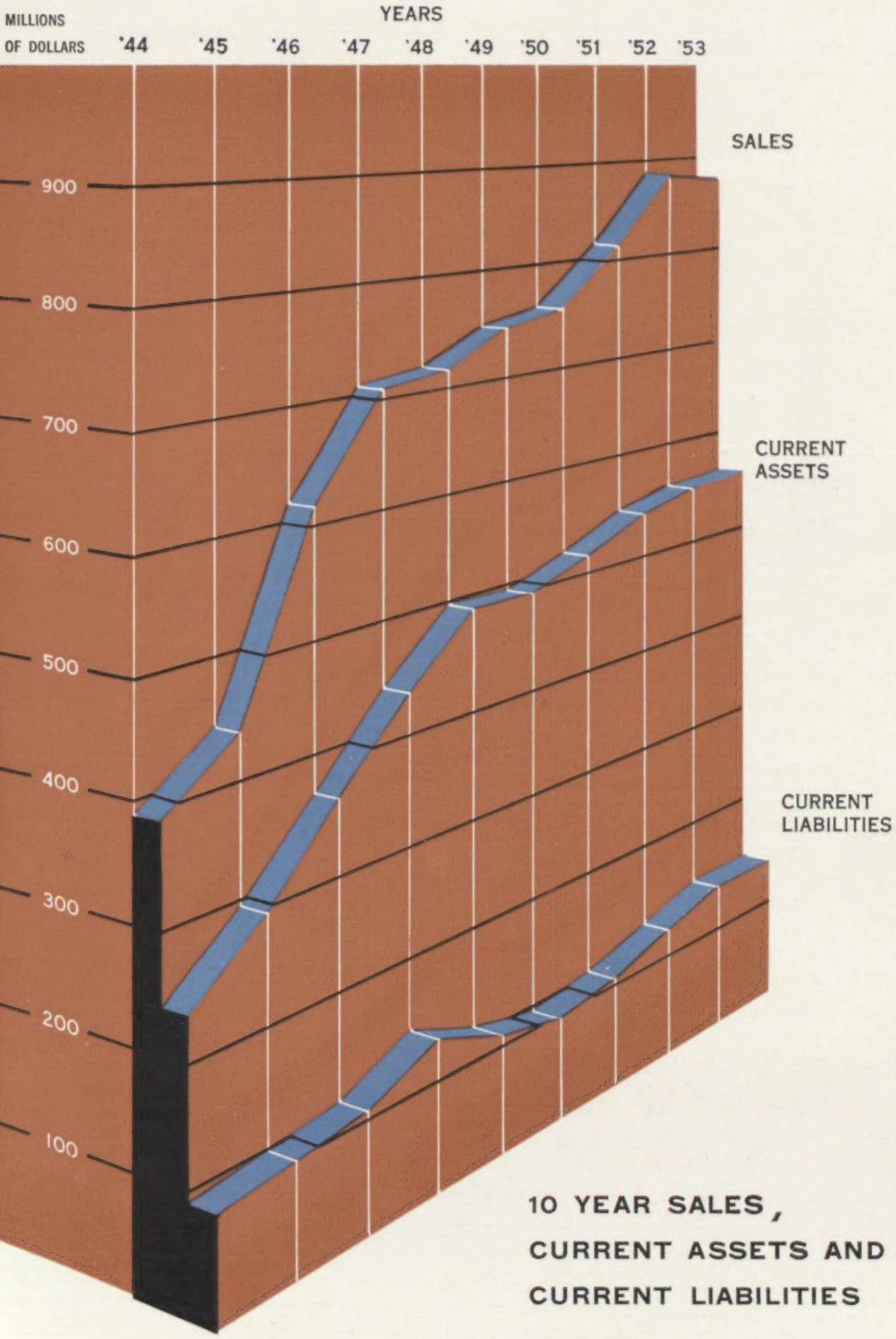
Inventories of our leaf tobaccos at the end of 1953, both in dollars and in pounds, were greater than at the end of the preceding year. Total inventories, valued on the same basis as in former years, amounted to $511,265,677 at the year end, an increase of $4,801,546 over inventories at the end of 1952.

Financing

For many years we have made short-term borrowings from banks to meet the heavy cash requirements during the leaf tobacco buying season. At the end of last year these loans amounted to $52,500,000, as against $60,000,000 at the end of



$ 194.2	$ 213.0	$ 230.7	$ 240.1	$ 249.4	$ 260.9
75.0	75.0	75.0	75.0	75.0	75.0
150.0	145.0	140.0	135.0	130.0	125.0
77.0	60.0	61.5	60.5	65.0	57.5
$ 496.2	$ 493.0	$ 507.2	$ 510.6	$ 519.4	$ 518.4



10 YEAR SALES, CURRENT ASSETS AND CURRENT LIABILITIES

1952. As additional Burley tobacco was acquired during the early weeks of 1953, our bank loans increased to $84,000,000. All of these loans were retired before or during the summer months in spite of the necessity of paying 80% of our 1952 Federal income and excess profits taxes by June 15th. Our bank loans are made under a credit agreement with depositary banks, which agreement extends through June, 1955.

As illustrated by the chart, since 1944 our sales have more than doubled, going from $387,997,688 in that year to $876,189,581 in 1953. From the end of 1944 to the end of 1953, our current assets also more than doubled, rising from $238,254,130 to $558,393,962, while our current liabilities increased only about 50% or from $90,022,601 to $137,701,957. Thus in this period the ratio of our current assets to current liabilities improved from 2.64 to 1 to 4.05 to 1.

The Company was able to improve its working capital position during this period,

and provide the great amount of additional funds required for continued expansion in business and increased taxes and costs of leaf tobacco, as a result of the timely financing undertaken in the years 1945 through 1948 and the reinvestment in the business of a portion of each year's earnings. In those years a total of $225,000,000 was obtained through the issuance of $75,000,000 of Preferred Stock, the sale of $60,000,000 of 3% Debentures and the borrowing of $90,000,000 on long-term 2½% notes. Since 1949 these Debentures and notes have been reduced at the rate of $5,000,000 a year. During the past ten-year period, the year-end peak for borrowed funds occurred in 1948 when the funded debt was $150,-000,000 and the short-term $77,000,000, or a total of $227,000,000. At the end of 1953 this had been reduced by $44,500,000 to $182,500,000.

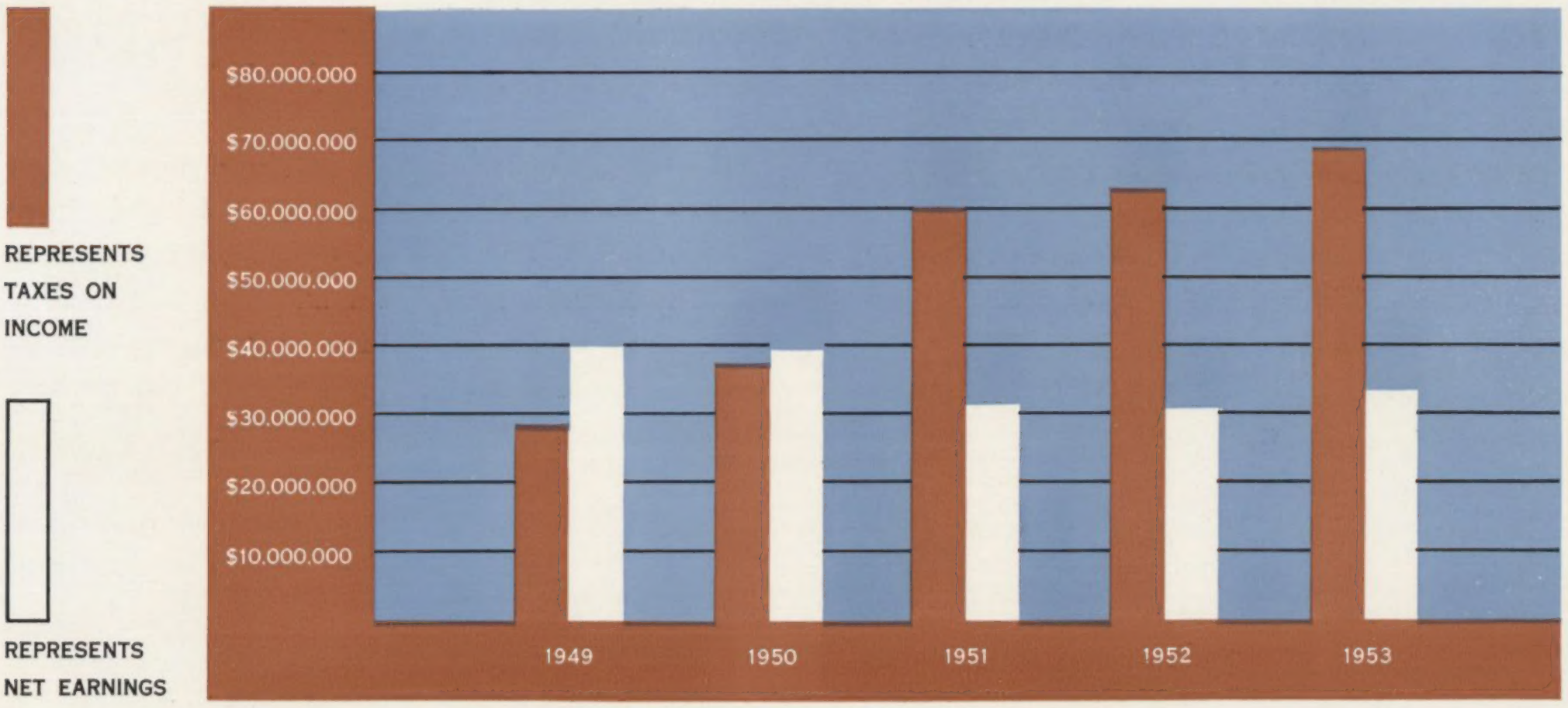
Plant Account

Expenditures for plant and equipment in 1953 amounted to $4,693,871. After adjustment for disposals, the gross real estate, machinery and equipment account at the year end amounted to $61,-931,819. Charges for depreciation and obsolescence for the year amounted to $2,679,592.

Fortieth Anniversary of CAMEL Cigarettes

October 21, 1953 marked the Fortieth Anniversary of the introduction of CAMEL Cigarettes. CAMEL, which was the first modern-type blended cigarette, soon became the nation's leader and brought about drastic changes in the entire industry. In 1913, the year when CAMEL Cigarettes were introduced, the Company's sales, consisting almost entirely of smoking and chewing tobaccos, were $22,339,036. By 1919 sales had increased to $188,-115,324, of which about 70% consisted of CAMEL Cigarettes. During the same period, cigarette production in the country increased over threefold—from about 15½ billion cigarettes in 1913 to 53

COMPARISON OF TAXES AND NET EARNINGS



billion cigarettes in 1919. Current national production is about eight times greater than that of 1919.

CAVALIER Cigarettes

For many years, CAMEL was the only brand of cigarettes manufactured by the Company. In view of the increase in the popularity of king-size cigarettes in the years immediately following World War II, the Company introduced, early in 1949, its CAVALIER brand. The promotion of this brand was intensified in 1952 and 1953 when the Company's earnings were subject to heavy excess profits taxes. The highlight of the promotional activities last year was the marketing of CAVALIER Cigarettes in attractive oval tins containing 100 cigarettes. By way of introducing and promoting the sale of CAVALIER 100's, they initially were made available throughout the country at a greatly reduced price. This offer attracted unusual interest and increased very substantially public demand for the brand. CAVALIER 100's are now being marketed at the same price per thousand cigarettes as are CAVALIER 20's.

Other Developments

During recent years, there has been an increase in the use of filter-tip cigarettes. It has been estimated that these accounted for about 1¼% of domestic sales in 1952 and around 3¼% in 1953. The Company has engaged in experimental work on a filter-tip cigarette for approximately two years. Much progress has been made in the difficult problems of finding the most desirable type of filter and blend of tobacco. If and when we decide to introduce a filter-tip cigarette, we of course want to have the best possible product.

Stockholders

On behalf of the management and the many employees of the Company, this opportunity is taken to express appreciation to the owners of the Company's shares for their helpfulness and confidence throughout the year. Holders of record of our stocks at the end of 1953 totaled 68,427, consisting of 57,914 having common stocks and 10,513 having Preferred Stock. There are many thousands of others who own stocks of our Company but hold them in the names of nominees or brokers and so do not appear on our records as stockholders.

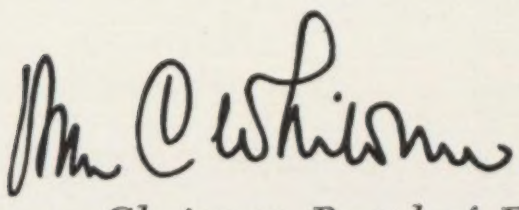
Employees

At the end of the year the regular employees of the Company numbered 11,498 and seasonal employees 4,842. The loyalty, efficiency and cooperation of the employees throughout the year have contributed much to the Company's accomplishments. One of the best indications of the mutually satisfactory relationships existing between the Company and its employees is the fact that of the regular employees over

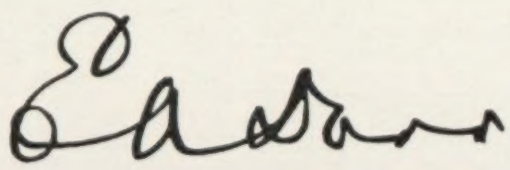
83% have 5 or more years of service;
58% have 10 or more years of service;
48% have 15 or more years of service;
39% have 20 or more years of service;
27% have 25 or more years of service.

Since 1945, which marked the end of World War II, the Company's annual cigarette volume has increased by considerably more than 50%, and at a rate higher than for the industry as a whole. We regard the decline in volume that occurred last year as of temporary nature and look forward to a continuation of the Company's growth.

Respectfully submitted for the Board of Directors,

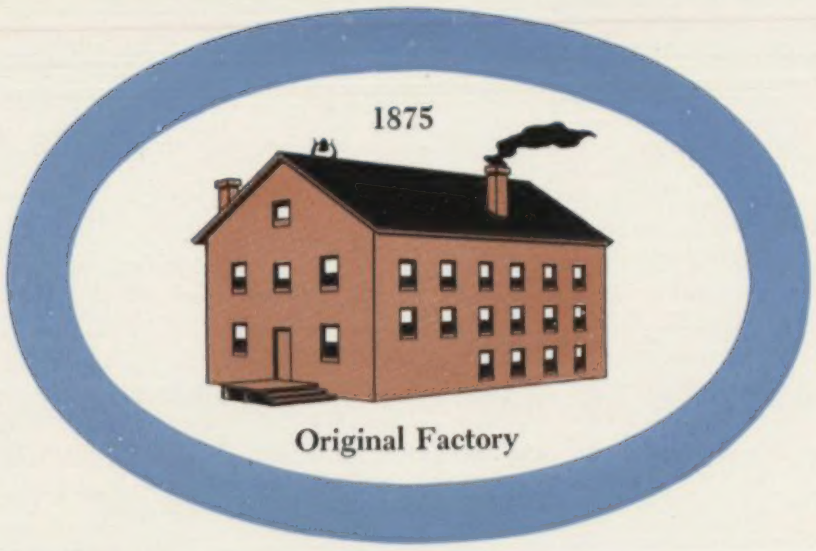


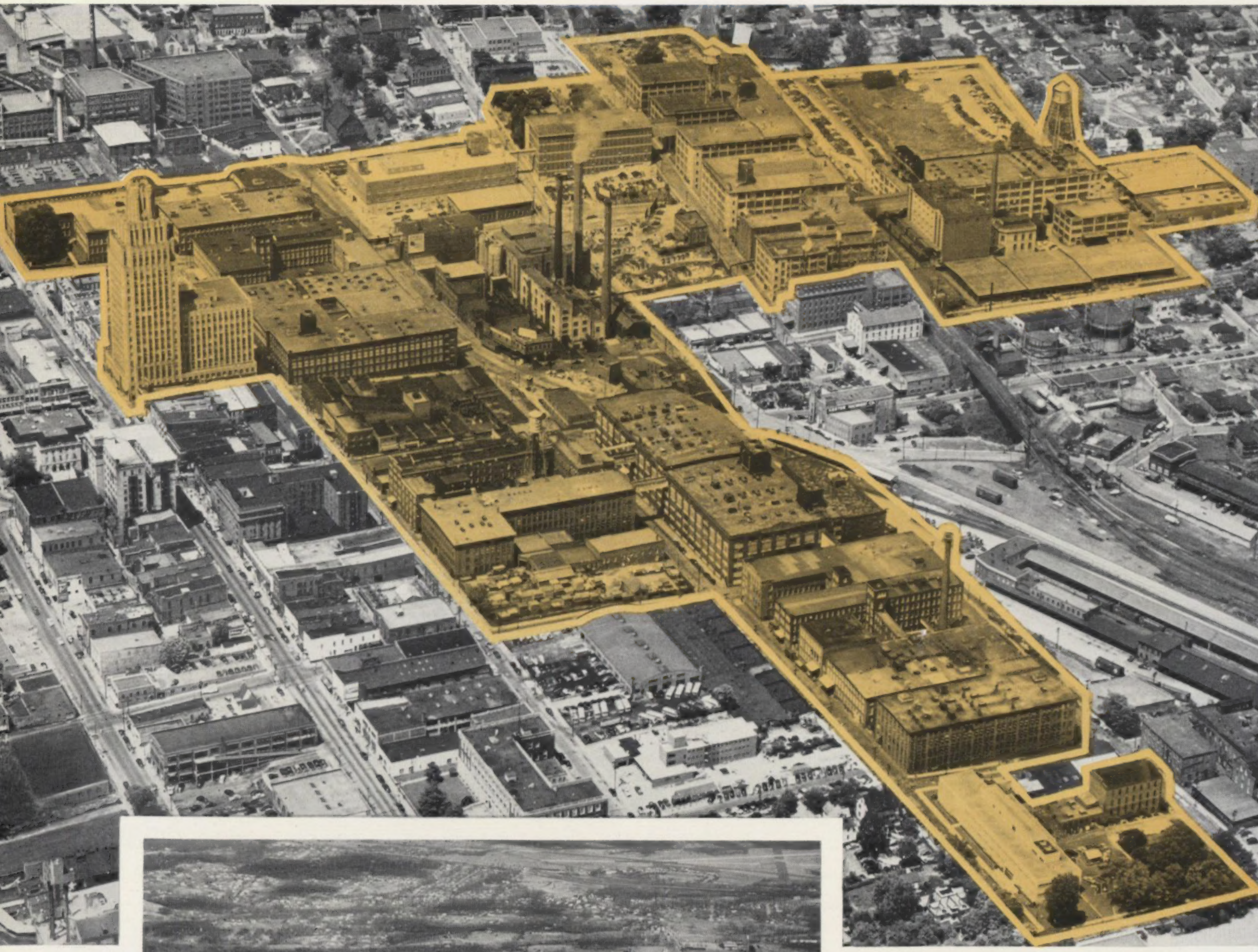
Chairman Board of Directors



President

January 22, 1954.





Within the shaded area are the manufacturing plants and office building in Winston-Salem, North Carolina.

One group of leaf storage warehouses

PRODUCTION

is a big job at R. J. Reynolds Tobacco Company, which each year turns out billions of cigarettes and millions of pounds of smoking and chewing tobaccos.

The production of CAMEL and CAVALIER Cigarettes, PRINCE ALBERT, GEORGE WASHINGTON and our 8 other brands of smoking tobaccos as well as our 27 brands of chewing tobaccos is a highly complicated process requiring careful planning and painstaking execution.

Each year hundreds of millions of pounds of leaf tobaccos of many different kinds and types are made by us into billions of cigarettes and millions of pounds of smoking and chewing tobaccos, all of which conform to our very exacting standards of quality and uniformity.

As leaf tobacco must be properly mellowed through an aging process that takes about two years, it is necessary for us to forecast demand and purchase our estimated requirements of the numerous kinds and types of leaf tobacco long before such leaf can be used.

Domestic leaf tobacco used by us is bought by our own corps of highly-trained buyers at the auction sales held in over 150 market towns located in 11 different states, principally Florida, Georgia, South Carolina, North Carolina, Virginia, Kentucky, Tennessee and Maryland. Imported leaf tobacco is acquired by our subsidiary, Glenn Tobacco Company, which operates in Greece at Athens, Cavalla, Serres and Xanthi and at Izmir, Turkey.

Most of the domestic leaf tobacco must be immediately redried in order that the moisture content of the leaf may be reduced to the requisite percentage needed for proper aging and storing. The leaf is either shipped directly to one of our redrying plants or is first taken to one of our handling plants where it is packed in hogsheads and then shipped to a redrying plant.

Our redrying facilities are located at Winston-Salem and Greensboro, North Carolina; Danville,

Feeding leaf tobacco into a redrying machine

Inspecting leaf tobacco

Virginia; and Lexington, Louisville and Maysville, Kentucky. The capacity of these plants is about 5,000,000 pounds of tobacco a day.

When the leaf has been redried it is packed in hogsheads and placed in storage where it is kept during the long aging process. Our own leaf tobacco storage warehouse areas are located near our redrying plants and include a number of buildings, each having a storage capacity of from 2,000,000 to 7,500,000 pounds.

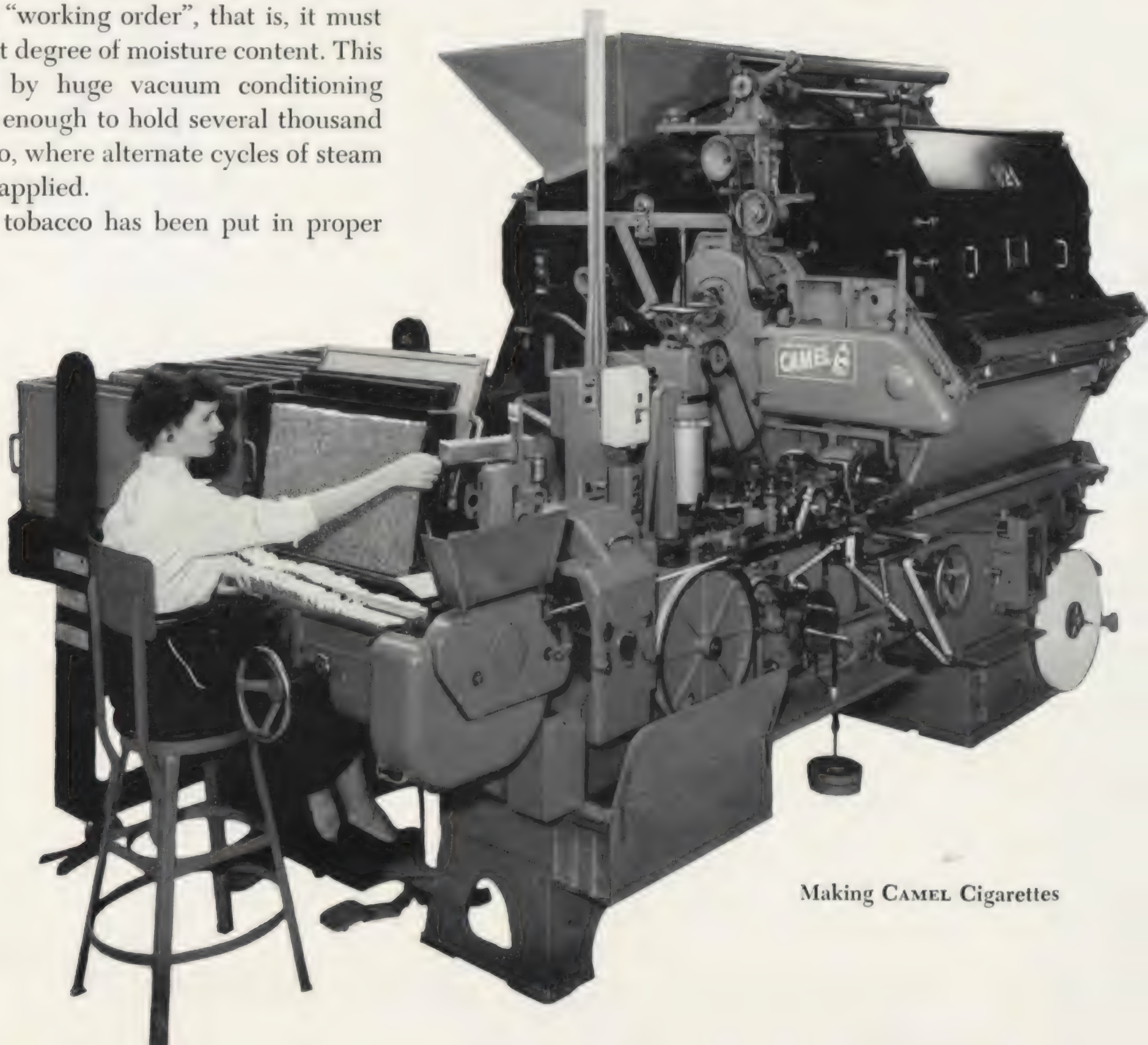
When the leaf tobacco has reached its proper maturity, it is taken to our manufacturing plants, all of which are at Winston-Salem, North Carolina. These plants, in addition to the cigarette, smoking tobacco and chewing tobacco factories, include stemming and other plants for the preparation of the leaf for manufacturing operations, electric power and steam plants, aluminum foil plant, by-products plant, machine shops and numerous other auxiliary operations.

Before leaf tobacco can be utilized, it must be placed in proper "working order", that is, it must have just the right degree of moisture content. This is accomplished by huge vacuum conditioning units, each large enough to hold several thousand pounds of tobacco, where alternate cycles of steam and vacuum are applied.

After the leaf tobacco has been put in proper "working order", it is removed from the hogsheads, blended, stemmed, cut and further processed so that it can be used in making the finished product.

Our cigarette factories are air-conditioned and are equipped with the most efficient machinery avail-

Packaging CAMEL Cigarettes



Making CAMEL Cigarettes

able, much of which is electronically controlled. The tobacco is taken to the hundreds of cigarette-making machines by automatic conveyors. Each of these machines forms, imprints and cuts CAMEL Cigarettes at a rate exceeding 1,200 cigarettes a minute. CAVALIER Cigarettes, due to their greater length, are produced at a somewhat lesser rate.

After the cigarettes have been made and inspected, they are taken to the packing machines, which form the packages, insert the cigarettes, attach the Internal Revenue stamps, enclose the packages in cellophane and add the tear strips, all at a rate exceeding 130 packages a minute for each machine.

The packages of cigarettes are then placed in cartons which are in turn packed by machine in shipping cases. These are carried by conveyors to the shipping rooms where they are loaded in railroad cars and trucks for shipment.

After our smoking and chewing tobaccos have been prepared through a series of intricate operations, they are packaged or wrapped on high-speed machines, placed in cartons and shipping cases and then taken by conveyors to the shipping rooms. The millions of cans used by us annually in packaging our products are made in our own factory.

Aluminum foil used by us is fabricated in our aluminum foil plant. Here aluminum, which is purchased in huge coils, is reduced to proper thickness by passing through a series of rolling machines. The aluminum is then mounted on paper and cut into the required widths.

All materials used in the preparation of our various products are subjected to careful examination and testing prior to use in order to make certain that they conform to our high standards. Throughout the many manufacturing processes, tests are constantly made and every precaution is taken to the end that the finished products will be of the highest quality.

Safety is a factor that we constantly stress throughout our plants. Machines are equipped with devices to guard against accidents. A staff of safety engineers is maintained to see that all possible safety measures are adopted and enforced. These precautions have contributed much to our exceptionally low accident rate, which is well below the national average. Our safety achievements have been recognized annually by the United States Department of Labor and by the North Carolina Department of Labor.

Our packing, redrying, processing, manufacturing and auxiliary plants comprise 114 buildings that have a total floor area of about 5,200,000 square feet. The leaf tobacco storage areas contain 134 warehouses having an aggregate floor space of about 5,800,000 square feet.

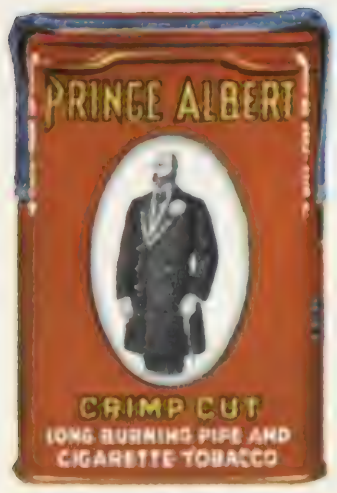
Preparing aluminum foil

PRODUCTS

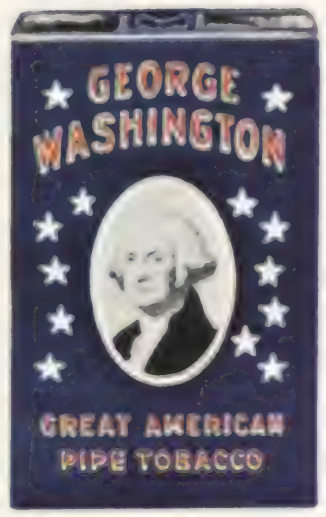
CAMEL AND

CAVALIER

CIGARETTES



SMOKING TOBACCO



PRINCIPAL BRANDS OF CHEWING TOBACCO

SELLING

Continuous advertising and other promotional efforts aid materially in creating and maintaining world-wide demand for our products.

The Company's products in attractive Christmas wrappings on display at a retail counter

Our aggressive advertising and merchandising activities were intensified in 1953, with our sales messages reaching a larger audience than ever before.

Major changes during the year in our advertising for CAMEL Cigarettes included the addition on television of "Topper", a show adapted from the highly amusing stories of Thorne Smith. Notable improvement to the ever-popular radio musical "CAMEL Caravan", featuring Vaughn Monroe, was contributed by the new and very original Sauter-Finegan Band.

CAMEL Cigarettes continued the sponsorship of John Cameron Swayze's informative television news presentation "The CAMEL News Caravan", the highly-rated television mystery program "Man Against Crime", starring Ralph Bellamy, and the entertaining radio quiz "Walk A Mile". In addition, numerous radio and television spot commercials carried selling messages for CAMEL Cigarettes.

The successful television show "I've Got A Secret", featuring Garry Moore as the entertaining master of ceremonies, has been sponsored by CAVALIER Cigarettes since last July and has been providing very effective advertising for that brand.

"Grand Ole Opry" on radio has continued to inform millions each week about the fine smoking qualities of PRINCE ALBERT Smoking Tobacco.

Also important in our promotional activities are newspaper, magazine, and poster advertisements. These carry sales producing messages all over the United States to scores of millions of consumers and potential consumers of our products.

In developing our advertising programs, every care is taken to assure that each dollar spent contributes its utmost to our sales.

Having our brands and point-of-sale advertising well displayed by the hundreds of thousands of retailers is among the important functions of our sales representatives. Through a program of systematic sampling by our salesmen, thousands of consumers are given the opportunity to become acquainted with the high quality of our brands.

Outstanding among the merchandising events of the year was the introduction, initially at a reduced price in a "Get Acquainted Offer", of CAVALIER 100's packed in a handsome and useful metal humidor. Owing to the demand from smokers all over the nation, we are continuing CAVALIER 100's in the humidor as one of our regular items at the same price per thousand cigarettes as CAVALIER 20's.

Guided tours through our factories have acquainted thousands of visitors with the high standards followed in our manufacturing operations. Reports have confirmed that these visitors, from all parts of the United States and from many foreign countries, have become ambassadors of good will for our products. Early last year we welcomed the 300,000th visitor.

The 300,000th visitor to the CAMEL cigarette factories being welcomed by President E. A. Darr

RESEARCH

benefits the growers of leaf tobacco and assures scientific control of quality in all our products.

Research has long been an important activity of our Company. In 1904 special experiments were begun that led to the perfection in 1907 of our process for manufacturing PRINCE ALBERT Smoking Tobacco. Thereafter extensive research was undertaken in the cigarette field as the result of which the blend and formula for CAMEL Cigarettes was developed. CAMELS, the first of the modern-type blends, were introduced in 1913 and soon revolutionized the cigarette industry.

In the beginning the research facilities were meager, consisting only of a one-room laboratory. Additions were subsequently made by extending the laboratories to cover an entire floor of one of our manufacturing buildings and then space in two other buildings. In 1934 the research activities were consolidated in a single building but in time this too became inadequate. Recognizing the ever increasing importance of science to industry, in 1950 the decision was made to expand our research staff and construct larger, more modern quarters for their use.

Our new research building was completed and occupied early last year, the dedication ceremonies being held on February 5, 1953. The building, we believe, contains the most extensive and complete facilities for tobacco research available in the industry, thus enabling the members of our enlarged research staff to carry on their important activities in a more effective and efficient way than has been possible in the past.

An analytical laboratory

The new building, which is of functional design, has three main sections and many auxiliary facilities, including a machine shop for the design and construction of special mechanical and electrical devices and a glass blowing shop to fabricate glass apparatus. In the office section of the building are the administrative offices, the conference auditorium and library. The laboratory section includes chemical, analytical, biochemical, physical, chemical engineering, flavoring, psychometric and quality control laboratories. A pilot plant, extending through two floors and large enough to accommodate for testing purposes full-scale manufacturing equipment, comprises the third section.

Our research staff, headed by the Director of Research, Kenneth H. Hoover, has scientific specialists and technicians in many fields. Included are organic, physical, and analytical chemists, biochemists, agricultural biochemists, chemical engineers, microbiologists, plant enzymologists, microbial and bacterial physiologists, and literature searchers.

Among the important activities undertaken is the study of chemical and biochemical changes that occur in tobacco from the seed bed to the final manufactured product. Knowledge gained in this field that is of benefit to growers of leaf tobacco is made available to them through our cooperation with agricultural experiment stations, universities and government agencies.

Analyses of tobacco at various stages of production are made in the analytical laboratories, thus assuring scientific control of quality at every phase of operations. In the chemical engineering laboratories experiments are conducted with processes for the purpose of perfecting them from the pilot plant stage until proven suitable for use by our factories.

The expanded research program marks still another step forward in our continuing efforts to explore every possibility for improvement of our products, for devising better and more efficient processes and for developing new products.

President E. A. Darr, Chairman of the Board John C. Whitaker and Chairman of the Executive Committee R. C. Haberkern at the ceremonies for the dedication of the research laboratories

The new research laboratory building

New employees learning about the Company

The Pastor-Counsellor discussing an employee's problem with him

PEOPLE

About 40% of our regular employees have unbroken service records of 20 or more years.

A most important asset of our Company, one that does not appear on its balance sheet, is the loyalty, efficiency and skills of its thousands of employees. Through our training programs, personnel policies, benefit plans and other services for employees, management seeks not only to preserve but to enhance this valuable asset.

New employees, in addition to receiving training for their particular work, are informed about the Company, its history, products, operational methods, personnel policies and benefits. Advancement of employees to jobs of greater responsibility is encouraged and training toward this end is provided.

Employees operating in the field are from time to time brought to Winston-Salem for exchange of ideas and special instructions as to new developments, methods and techniques.

In recognition of the ever-increasing complexity of operations and the need for well qualified personnel to carry forward professional and executive responsibilities, our staff of persons selected for their potential abilities to assume these important functions has been increased and special training programs are provided for them.

The health and well-being of our employees is a matter of vital concern to management. For many years our Medical Department has safeguarded the health of our employees. Financial assistance to employees in times of sickness is made available by our group insurance plans. For those employees who are confronted with family or other personal or emotional problems, the services of our Pastor-Counsellor are offered. These services, which consist principally of confidential counselling sessions, have been of great benefit to a large number of employees during the period since 1949 when this program was initiated.

Among our regular employees, the average length of continuous service is 16¼ years. The exceptionally small turn-over in our working force is due both to the unusually high type of our personnel and to the effectiveness of efforts made to have every employee share satisfaction and contentment in his job and working relationships.

5 YEAR RECORD

CONDENSED COMPARATIVE FINANCIAL DATA

	YEAR ENDED DECEMBER 31				
SALES, EARNINGS AND DIVIDENDS (amounts in thousands of dollars)	1953	1952	1951	1950	1949
Net Sales	$876,189	$881,424	$814,217	$759,856	$746,345
Income before taxes	102,873	95,514	92,177	77,979	68,925
Federal and state taxes on income	68,701	63,565	60,060	37,721	28,471
Net Earnings	34,172	31,949	32,117	40,258	40,454
Dividends on Preferred Stock	2,934	2,934	2,934	2,934	2,934
Dividends on common stocks	19,756	19,723	19,715	19,714	19,661
FINANCIAL POSITION (amounts in thousands of dollars)					
Current Assets	$558,394	$553,200	$540,646	$518,122	$493,678
Accrued Federal and state taxes	71,513	65,237	60,594	38,146	28,971
Other current liabilities	66,189	71,979	67,158	70,185	66,501
Working Capital	420,692	415,984	412,894	409,791	398,206
Real Estate, Machinery and Equipment—net	36,395	34,551	32,751	31,611	31,153
Total Assets	598,609	591,641	577,886	553,997	528,529
Funded Debt	125,000	130,000	135,000	140,000	145,000
Preferred Stock	75,000	75,000	75,000	75,000	75,000
Common stocks and Earnings Retained	260,907	249,425	240,133	230,666	213,056
FINANCIAL STATISTICS					
Income taxes per share of common stocks*	$ 6.87	$ 6.35	$ 6.00	$ 3.77	$ 2.84
Earnings per share on common stocks*	3.12	2.90	2.92	3.73	3.75
Dividends per share on common stocks	2.00	2.00	2.00	2.00	2.00
Book value per share of common stocks*	26.09	24.94	24.01	23.06	21.30

*Based on 10,000,000 shares.

FINANCIAL POSITION

ASSETS

	1953	1952
CURRENT ASSETS:		
Cash	$ 23,299,408	$ 21,033,288
Accounts receivable (net) for merchandise sold	23,828,877	25,702,385
Leaf tobacco, supplies, manufactured products, etc.—at average cost	511,265,677	506,464,131
TOTAL CURRENT ASSETS	558,393,962	553,199,804
REAL ESTATE, MACHINERY AND EQUIPMENT — at cost	61,931,819	58,369,389
Less depreciation, obsolescence, etc.	25,537,015	23,818,406
NET REAL ESTATE, MACHINERY AND EQUIPMENT	36,394,804	34,550,983
OTHER ASSETS:		
Investments in non-competitive companies	25,000	25,000
Sundry receivables and deposits	1,595,950	2,008,598
Brands, trade-marks and good will	1	1
Prepaid expenses and deferred charges	2,199,722	1,857,021
TOTAL OTHER ASSETS	3,820,673	3,890,620
	$598,609,439	$591,641,407

DECEMBER 31, 1953 with Comparative Figures for 1952

LIABILITIES

	1953	1952
CURRENT LIABILITIES:		
Accounts payable	$ 5,735,935	$ 5,820,891
Notes payable	52,500,000	60,000,000
Funded debt due within one year	5,000,000	5,000,000
Accrued Federal and state taxes (Note A)	71,512,983	65,237,021
Sundry accrued accounts	2,953,039	1,157,822
TOTAL CURRENT LIABILITIES	137,701,957	137,215,734
FUNDED DEBT (Note B):		
2½% Promissory Notes	70,000,000	74,000,000
3% Debentures, due 1973	55,000,000	56,000,000
TOTAL FUNDED DEBT	125,000,000	130,000,000
CAPITAL AND EARNINGS RETAINED:		
Preferred Stock—Par $100		
Authorized and issued 750,000 shares		
3.60% Series	49,000,000	49,000,000
4.50% Series	26,000,000	26,000,000
Common Stock—Par $10		
Authorized and issued,		
1953—456,253 shares		
1952—548,335 shares	4,562,530	5,483,350
New Class B Common Stock—		
Par $10 (Note C)		
Authorized 15,000,000 shares		
Issued, 1953—9,543,747 shares		
1952—9,451,665 shares	95,437,470	94,516,650
	175,000,000	175,000,000
Earnings Retained for requirements of the business (Note D)	160,907,482	149,425,673
TOTAL CAPITAL AND EARNINGS RETAINED	335,907,482	324,425,673
	$598,609,439	$591,641,407

STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1953—with Comparative Figures for 1952

	1953	1952
NET SALES	$876,189,581	$881,424,299
OTHER INCOME:		
Interest, dividends and sundry	31,728	6,971
TOTAL INCOME	876,221,309	881,431,270
LESS:		
Cost of goods sold and other charges including selling and general expenses, but exclusive of items below	764,723,044	777,627,414
Provision for depreciation and obsolescence	2,679,592	2,375,921
Interest and debt expense	4,878,897	4,580,290
Provision for participation in profits under Article XII of By-Laws payable to 1,577 officers and employees for 1953 and 1,727 for 1952	1,066,440	1,333,267
Provision for Federal and state taxes on income	68,701,292	63,564,986
TOTAL INCOME DEDUCTIONS	842,049,265	849,481,878
NET EARNINGS FOR YEAR	$ 34,172,044	$ 31,949,392
Dividends paid on Preferred Stock	$ 2,934,000	$ 2,934,000
NET EARNINGS APPLICABLE TO COMMON STOCKS	$ 31,238,044	$ 29,015,392

STATEMENT OF EARNINGS RETAINED

YEAR ENDED DECEMBER 31, 1953—with Comparative Figures for 1952

	1953	1952
EARNINGS RETAINED for requirements of the business—at beginning of year	$149,425,673	$140,133,589
ADD:		
Net Earnings for year	34,172,044	31,949,392
	183,597,717	172,082,981
DEDUCT:		
Cash dividends—		
Preferred Stock		
3.60% Series	1,764,000	1,764,000
4.50% Series	1,170,000	1,170,000
Common stocks at $2.00 per share, consisting of four quarterly dividends of 50c each	19,756,235	19,723,308
	22,690,235	22,657,308
EARNINGS RETAINED for requirements of the business—at end of year (Note D)	$160,907,482	$149,425,673

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1953

NOTE A: The Internal Revenue Service has issued a deficiency notice for the years 1949 and 1950 in the total amount of $2,339,066 based on disallowance as deductions of certain payments under Article XII of the By-Laws. The deficiency assessment is being contested. Pending final determination, no reserve has been provided therefor.

NOTE B: The aggregate principal payments required annually with respect to the 2½% Promissory Notes and the 3% Debentures, due October 1, 1973, are as follows: 1954-1957, $5,000,000; 1958-1965, $6,000,000; 1966-1972, $7,000,000; 1973, $13,000,000.

NOTE C: Of the authorized but unissued shares of New Class B Common Stock, 456,253 shares are reserved for issuance upon exchange of shares of Common Stock pursuant to the Exchange Option to Holders of Common Stock set forth in the Company's Certificate of Incorporation as amended. Of the 9,543,747 shares of issued New Class B Common Stock, 114,063¼ shares are held for exchange pursuant to said Exchange Option to holders of Common Stock.

NOTE D: The 2½% Promissory Notes and the Indenture under which the 3% Debentures are issued contain certain restrictions as to the declaration of dividends (other than stock dividends) on the common stocks of the Company and as to the purchase, redemption or retirement of shares of its stock. At December 31, 1953, the part of Earnings Retained not affected by these restrictions was $112,900,213.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

R. J. REYNOLDS TOBACCO COMPANY,
ITS DIRECTORS AND STOCKHOLDERS:

We have examined the statement of financial position of R. J. REYNOLDS TOBACCO COMPANY as of December 31, 1953, and the related statements of earnings and of earnings retained for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We were present when inventories were taken by the Company and checked procedures followed in determining quantities and valuation.

In our opinion, the accompanying statement of financial position and statements of earnings and of earnings retained present fairly the financial position of the Company at December 31, 1953, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST,
Certified Public Accountants

Winston-Salem, N. C.
January 21, 1954

BOARD OF DIRECTORS

R. J. R.

R. J. REYNOLDS TOBACCO COMPANY

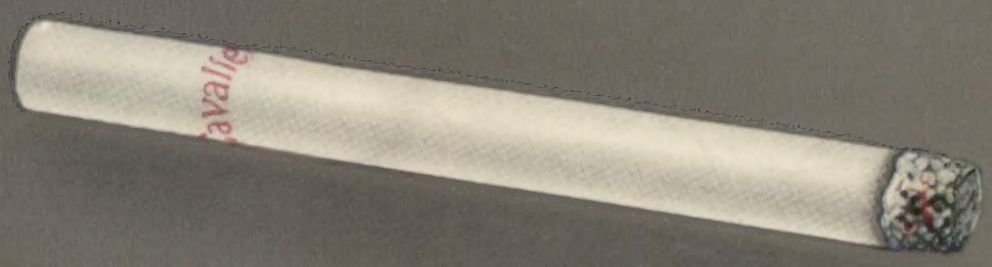
JOHN C. WHITAKER	*Chairman Board of Directors*
R. C. HABERKERN	*Chairman Executive Committee*
E. A. DARR	*President*
H. N. HARDY	*Vice President*
BOWMAN GRAY	*Vice President*
H. S. KIRK	*Vice President*
W. J. CONRAD	*Vice President and Secretary*
A. H. GALLOWAY	*Treasurer*
S. M. SCOTT	*Comptroller*
W. T. SMITHER	*Manager Advertising Department*
R. G. VALLANDINGHAM	*Superintendent of Leaf Buying*
H. H. RAMM	*Solicitor and Assistant to Chairman of Board*
S. B. HANES, JR.	*Superintendent of Leaf Processing*
WILLIAM R. LYBROOK	*Associate Counsel*
KENNETH H. HOOVER	*Director of Research*

TRANSFER AGENTS

THE CHASE NATIONAL BANK
OF THE CITY OF NEW YORK
11 Broad Street,
New York 15, N. Y.

THE FIRST NATIONAL BANK
OF JERSEY CITY
1 Exchange Place,
Jersey City 3, N. J.

REGISTRAR

THE HANOVER BANK
70 Broadway,
New York 15, N. Y.

R. J. REYNOLDS TOBACCO COMPANY